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Foreign and Commonwealth Office  
London SW1A 2AH

From The Minister of State

6 September 1989

I should like to draw your attention to four applications from Matrix Churchill Ltd of Coventry for the supply to Iraq of sophisticated machine tool technology and to recommend that these applications be refused. The company are currently pressing us over the following applications, worth in excess of £5½ million: 3G/23006/89; 3G/52039/89; 3G/22351/89; 3M/0440/89.

You will already be aware of our concerns about Matrix Churchill, which was taken over as part of a procurement network for the Iraqi nuclear, CBW and missile programmes. We know, originally from secret sources, that contrary to the assurances of the manufacturer, its high technology machine tools have been shipped to the major Iraqi munitions establishments.

We have approved the company's applications in the past, but only because of the need to protect these sources. I now understand, however, that we could draw selectively on information from secret sources should that become necessary in order to justify a refusal. Our concerns can only be reinforced by the activities of the Iraqi procurement network, about which the Prime Minister expressed concern in April. The Learfan issue in July demonstrated the lengths to which the Iraqis are prepared to go in order to obtain sensitive technology and materials and the consequent need to undermine their procurement activities.

The refusal of these licences may of course attract unwelcome publicity and some criticism of HMG. We can expect the company to protest, and local MPs might be concerned about possible loss of employment. Our own evidence, however, shows that the company depends less heavily now on the Iraqi market than previously. In view of their heavy investment

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in the company, the Iraqis are in any case likely either to sell it as a going concern or maintain it as a money-spinner rather than allowing it simply to collapse. The effects on local employment levels should therefore be limited. If the company requests a meeting with you, you would no doubt wish to justify the refusal of the licences by saying that we have firm evidence that equipment has previously been shipped to Iraqi munitions factories, as well as by drawing attention to our broader concern about Iraqi procurement activities in the UK.

I am copying this letter to Alan Clark at the MOD.

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The Hon William Waldegrave

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